



CITY COUNCIL STUDY SESSION REPORT

MEETING DATE: MAY 31, 2011

ITEM NUMBER: 1

SUBJECT: FISCAL YEAR 2011-2012 PRELIMINARY EXPENDITURE BUDGET AND ESTIMATED FUND BALANCES

DATE: MAY 26, 2011

FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING

PRESENTATION BY: BOBBY YOUNG, BUDGET & RESEARCH OFFICER

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RECOMMENDED ACTION:

Receive and comment.

BACKGROUND:

Each year the City proposes appropriations/expenditures and capital projects for most funds from all sources for the City Council to adopt. The most notable fund is the General Fund. As shown in Table A below, total preliminary General Fund appropriations make up 83.15% of all appropriations and capital projects. During this time in the budget process, City Council requested staff to present analysis for determining the FY 11-12 Expenditures and Capital Projects including Estimated Fund Balances.

ANALYSIS:

The following table shows preliminary appropriations and capital projects for all fund types compared to the FY 10-11 adopted budget. Staff calculates preliminary appropriations and capital projects for all funds to increase by approximately 7.50%.

| PRELIMINARY APPROPRIATIONS AND CAPITAL PROJECTS – ALL FUNDS | | | | | |
|---|-------------------------|----------------------|---------------------|--------------|---------------------------------|
| Table A | | | | | |
| Fund Type | Preliminary FY 11-12 | Adopted FY 10-11 | Increase (Decrease) | | FY 11-12 Percent of Total |
| | | | Amount | Percent | |
| General Fund | \$ 97,871,613 | \$ 94,585,285 | \$3,286,328 | 3.47% | 83.15% |
| Special Revenue Funds* | 10,322,953 | 6,265,333 | 4,057,620 | 64.76% | 8.77% |
| Capital Projects Funds | 4,301,535 | 3,172,652 | 1,128,883 | 35.58% | 3.65% |
| Internal Service Funds | 5,209,100 | 5,466,348 | (257,248) | (4.71%) | 4.43% |
| Total All Funds | <u>\$117,705,201</u> | <u>\$109,489,618</u> | <u>\$8,215,583</u> | <u>7.50%</u> | <u>100.00%</u> |
| * Includes transfers out | | | | | |

Since the General Fund is the largest fund with appropriations, each year staff reviews adopted appropriations against monthly expenditures to determine budgets are being adhered to and proposes adjustments, if necessary. This was done during the City's Mid-Year Budget Review at the January 11, 2011 City Council Study Session. Many of the adjustments proposed were savings for the 2010-11 fiscal year only. For example, one of the reductions was for attrition savings. These savings are created when a budgeted position is left vacant for a period of time until it is filled with a new employee. If the position is filled, these savings can not be expected to carry into a following year. For analysis and comparative purposes, staff feels it is more relevant to compare the FY 11-12 preliminary appropriations with the FY 10-11 adopted appropriations. The following table compares preliminary FY 11-12 appropriations with the adopted FY 10-11 and presents them as the grouped categories of: salaries and benefits, maintenance and operations, fixed assets and transfers out.

Table B

| <u>APPROPRIATION COMPARISON – GENERAL FUND</u> | | | |
|---|--|------------------------------------|--------------------------|
| <u>Category</u> | <u>Preliminary FY 11-12</u> | <u>Adopted FY 10-11</u> | <u>Difference</u> |
| Salaries and Benefits | \$ 72,608,268 | \$ 74,306,868 | (\$ 1,698,600) |
| Maintenance and Operations | 24,704,500 | 19,651,188 | 5,053,312 |
| Fixed Assets | 458,845 | 527,229 | (68,384) |
| Transfers Out | 100,000 | 100,000 | - |
| Total | <u>\$ 97,871,613</u> | <u>\$ 94,585,285</u> | <u>\$ 3,286,328</u> |

The following is additional analysis for each category related to the changes shown in Table C above.

General Fund – Salaries and Benefits

As shown in the table, Salaries and Benefits is the largest category of General Fund appropriations. This category includes the budget for: Regular Salaries (Sworn and Non-Sworn), Part Time Salaries, Overtime, Other Compensation, Cafeteria Plan, Medicare, Retirement, Professional Development, Unemployment, Worker's Compensation, and Retiree Medical benefits.

When compared to FY 10-11, the preliminary has decreased by approximately \$1.7 million. This decrease is mostly attributed to a reduction and reallocation of positions in the Police Department and employee contributions towards PERS costs – thereby reducing the City's required contribution.

Reductions to positions in the Police Department were directed by City Council at the February 15, 2011 City Council meeting. At the time, there were 2 vacant Police Officer positions that were originally budgeted as part of the FY 10-11 adopted budget. Also, as it relates to the AirBourne Law Enforcement (ABLE) Program, at the same City Council meeting, Council provided direction to begin the dissolution of ABLE. Currently, there are 3 Police Helicopter Pilots and 1 Police Helicopter Sergeant. In FY 11-12 when the program is dissolved, the budget reflects the 3 Pilot positions being reallocated to the Field Operations program and therefore 3 lower budgeted Police

Officer positions would be eliminated. Also, the Police Helicopter Sergeant is allocated to remain in the Helicopter program to assist with the dissolution, with ABLE reimbursing the City one-half salary costs, as is stated in the current agreement.

Budgeted retirement costs also decreased compared to the FY 10-11 adopted budget. For FY 11-12, PERS rates increased compared to the prior year. However, during FY 10-11, the City negotiated to have all employee groups contribute an amount in excess of the rate increase. Therefore, when comparing to the prior year, the City's net required contribution actually decreased.

General Fund – Maintenance and Operations

This category includes the budget for: office supplies, small tools and equipment, maintenance and construction, electricity, fuel, gas, water, advertising, building and structures, landscaping and sprinklers, streets – alleys – sidewalks, consulting, engineering and architectural, debt services payments, internal rent.

The largest portion of the increase, as shown in Table B, are costs for internal rent – replacement and internal rent – maintenance. Only minimal amounts were budgeted in FY 10-11, and therefore almost the entire amount of \$3.9 million in FY 11-12 is an increase. The Internal Rent – Replacement are charges to the General Fund by the Equipment Replacement Fund (ERF) to set aside money for future replacement of vehicles. The Internal Rent – Maintenance are charges to the General Fund by the ERF to maintain (gas, oil, tires, etc.) the current fleet of vehicles. In prior years, reducing either of these amounts reduced the budget for General Fund and therefore helped with projected budget deficits. However, at City Council direction, staff allocated amounts in the preliminary budget to return to the practice of funding this activity from the General Fund and not using ERF fund balance.

The other category line item increases include: \$636,000 in Consulting for a City General Plan Update, \$137,000 in Streets-Alleys-Sidewalks for increased proactive sidewalk grinding, \$256,000 in Landscaping and Sprinklers for increased mowing and fertilization of City parks and sports fields as well as more frequent tree trimming, and \$216,000 in Maintenance and Construction for increased number of residential street repaving projects completed by City personnel.

Capital Improvements

Since capital projects are combined with operating appropriations in the table above, the table below list all funds individually with a preliminary capital budget compared to FY 10-11 adopted capital improvement budget. Individual projects are listed on page 160-161 of the Preliminary Operating and Capital Improvement Budget document with details on pages 162-177. Also, descriptions of Funds and funding sources can be located on pages 7-9 of the budget document.

Table C

CAPITAL IMPROVEMENT BUDGET – ALL FUNDS

| <u>Fund</u> | <u>Preliminary FY 11-12</u> | <u>Adopted FY 10-11</u> | <u>Difference</u> |
|---|--|------------------------------------|--------------------------|
| Gas Tax | \$ 6,141,000 | \$ 1,800,000 | \$ 4,341,000 |
| Air Quality Management District (AQMD) | 75,000 | 28,995 | 46,005 |
| Community Development Block Grant (CDBG) | 350,000 | 1,040,000 | (690,000) |
| Drainage Fees | 300,000 | 440,000 | (140,000) |
| Capital Improvement Fund | 1,477,600 | 226,005 | 1,251,595 |
| Measure "M" | 2,105,522 | 283,588 | 1,821,934 |
| Total | <u>\$ 10,449,122</u> | <u>\$ 3,818,588</u> | <u>\$ 6,630,534</u> |

Fund Balances

The table below displays the estimated changes in fund balances for those funds staff will be discussing. Fund balance is the accumulation of prior year revenues that exceeded expenditures. A listing of estimated changes in fund balance for all funds is located on pages 12-13 of the preliminary budget book.

Table D

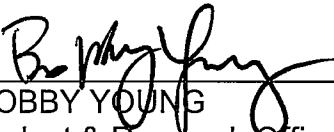
ESTIMATED FUND BALANCES

| <u>Fund</u> | <u>Estimated Beginning Fund Balance</u> | <u>Estimated Ending Fund Balance</u> | <u>Difference</u> |
|----------------------------|--|---|--------------------------|
| General Fund | \$ 39,920,065 | \$ 36,626,846 | (\$ 3,293,219) |
| Equipment Replacement Fund | 5,372,949 | 7,276,485 | 1,903,536 |
| Self Insurance Fund | 7,106,080 | 7,247,181 | 141,101 |

The negative amount for the General Fund is reflective of the preliminary budget deficit since expenditures currently exceed revenues.

CONCLUSION:

The above is an overview of the FY 11-12 Preliminary Expenditure Budget and Estimated Fund Balances. It is currently estimated that expenditures for all funds will increase by approximately \$8.2 million. However since the General Fund has a preliminary budget deficit of approximately \$3.3 million, the increase of expenditures should be reduced in the General Fund. Staff will also provide a presentation to assist with furthering the discussion and analysis of these items and be prepared to answer questions as necessary.


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